

Message Text

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PM-07 H-03 L-03 NSC-10 PA-03 PRS-01 SS-15 USIA-15

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R 051130Z SEP 73

FM AMEMBASSY TANANARIVE

TO SECSTATE WASHDC 5613

INFO AMEMBASSY PARIS

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E. O. 11652: DECON 9/4/75

TAGS: ECON, EAGR, EFIN, MA

SUBJ: GENERAL RAMANANTSOA DELIVERS MAJOR ECONOMIC STATEMENT

REF: TANANARIVE 1161

BEGIN SUMMARY: IN MAJOR STATEMENT ON ECONOMY, GEN RAMANANTSOA ANNOUNCED 37.5 PERCENT INCREASE IN PRICE PAID TO MALAGASY FARMERS FOR RICE PADDY AS PART MAJOR EFFORT TO INCREASE PRODUCTION AND TO REDUCE RICE PURCHASES ABROAD. HE ALSO DECLARED MAJOR SECTORS OF ECONOMY WOULD BE RESERVED FOR STATE INTERVENTION, AND VILLAGE COOPERATIVE ORGANIZATIONS WOULD HAVE INCREASING ROLE IN ECONOMY. FOREIGN BUSINESSES GIVEN GUIDELINES FOR CONFORMING TO "MALAGASIZATION PROGRAM" AND TOLD THEY WOULD HAVE RIGHT TO TRANSFER "PART" OF PROFITS ABROAD. GENERAL INDICATED DEVELOPMENT PLAN COVERING PERIOD THROUGH 1977 AND INVESTMENT CODE WOULD BE PUBLISHED SOON. END SUMMARY.

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1. ON RADIO AND TV EVENING 31 AUG MALAGASY HEAD OF GOVT GEN RAM-ANANTSOA DELIVERED MAJOR DECLARATION OF GOMR POLICY ON ECONOMIC MATTERS. WELL-ORGANIZED AND CAREFULLY PREPARED STATEMENT IS CLEAR REITERATION OF GOVT'S GOAL TO "MALAGASIZE" ECONOMY PARTICULARLY THROUGH INCREASED PARTICIPATION BY STATE AND "FOKONOLONA" (VILLAGE COOPERATIVE ORGANIZATIONS NOW BEING WIDELY DEVELOPED BY GOMR) BUT WITHOUT SLIGHTEST HINT OF ANTI-FOREIGN DIATRIBE.

2. IN OUR VIEW, MOST IMPORTANT ELEMENT OF STATEMENT, AT LEAST FOR SHORT RUN, WAS GEN'S ANNOUNCEMENT THAT PRICE PAID TO MALAGASY FARMER FOR RICE PADDY IS BEING RAISED TO 22 FMG PER KILO ON 01SEP. THIS REPRESENTS AN INCREASE OF 37.5PERCENT FOR ORDINARY RICE PADDY, FLOOR PRICE OF WHICH HAS BEEN 16 FMG PER KILO IN MOST LOCALITIES. AS INDICATED REFTTEL, IT HAS BEEN EMBASSY'S VIEW (AS WELL AS THAT OF MOST OTHER OBSERVERS) THAT GOMR WOULD BE UNABLE TO MEET PRESENT RICE CRISIS AND INCREASE RICE PRODUCTION SUFFICIENTLY TO KEEP UP WITH COUNTRY'S RAPID POPULATION GROWTH UNLESS FARMER GIVEN MORE FOR THIS PADDY AND THUS ENCOURAGED TO INVEST IN FERTILIZERS, IMPROVED SEEDS, ETC. PRICE RISE ANNOUNCED BY GEN OBVIOUSLY STEP IN RIGHT DIRECTION AND MAY WELL RESULT IN GREATER PRODUCTION NEXT YEAR, AS WELL AS HELP GET ECONOMY MOVING BY INCREASING PURCHASING POWER IN HANDS OF FARMERS. IT REMAINS TO BE SEEN, HOWEVER, WHETHER NEW PRICES ALONE WILL BRING OUT IN IMMEDIATE FUTURE SUFFICIENT STOCKS OF RICE FROM FARMS TO CUTBACK SUBSTANTIAL BILL FACING MADAGASCAR FOR RICE IMPORTS. GEN SAID NOTHING ABOUT EFFECT OF HIGHER PADDY PRICE ON RICE PRICE PAID BY CONSUMER.

3. LESS ENCOURAGING, IN OUR VIEW, WERE GEN'S STATEMENTS RE INCREASED ROLE OF STATE AND COOPERATIVE ORGANIZATIONS IN ECONOMY. ACCORDING TO GEN, STATE WILL RESERVE FOR ITSELF FOLLOWING "VITAL SECTORS": BANKING, INSURANCE, FOREIGN TRADE, TRANSPORT, ENERGY, MINING, PHARMACEUTICALS, AND MOVIES. WITHOUT PROVIDING DETAILS, GEN STATED THAT STATE INTERVENTION IN THOSE SECTORS WILL BE CARRIED OUT IN THREE DIFFERENT WAYS DEPENDING ON SITUATION IN EACH CASE: (A) REGULATION, (B) MAJORITY CAPITAL PARTICIPATION IN CERTAIN CORPORATIONS, AND (C) DESIGNATION OF OTHER ENTITIES TO IMPLEMENT STATE POLICY. GEN ALSO ANNOUNCED CREATION OF NEW STATE-OWNED CORP, SOCIETE NATIONALE DE COMMERCIALISATION EXTER-LIMITED OFFICIAL USE

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IEURE (SONACO) WHICH WILL PLAY AS YET UNDEFINED ROLE IN EXPORT, IMPORT AND RETAIL TRADE. IN OUR VIEW, EXPERIENCE THIS YEAR WITH STATE TAKEOVER OF INTERNAL RICE TRADE IS NOT GOOD HARBINGER FOR FUTURE STATE BUSINESS OPERATIONS.

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4. ACCORDING TO GENERAL, "FOKONOLONA" WILL BE CHARGED WITH PROMOTION OF AGRICULTURAL PRODUCTION AS WELL AS DISTRIBUTION OF CONSUMER NECESSITIES, FERTILIZERS, SEEDS, AND AGRICULTURAL EQUIPMENT TO RURAL POPULATION. HE ALSO SAID THAT PROCESSING OF AGRICULTURAL PRODUCTS, SUCH AS RICE AND VEGETABLE OIL MILLS, WILL BE IN HANDS OF DIFFERENT COOPERATIVE ORGANIZATIONS.

5. WITH RESPECT TO PRIVATE ENTERPRISES, GEN INDICATED THERE REMAINED WIDE AREAS OF ACTIVITY FOR THEM OUTSIDE THOSE RESERVED TO STATE AND COOPERATIVE ORGANIZATIONS AS LONG AS THEY CONFORM TO OBJECTIVES OF AS-YET-TO-BE-PUBLISHED ECON PLAN. FOR FOREIGN BUSINESSES, GEN LAID DOWN SEVERAL SPECIFIC REQUIREMENTS: (A) TO ESTABLISH THEIR HEADQUARTERS IN MADAGASCAR BY END OF 1973; (B) TO "MALAGASIZE" MANAGEMENT POSITIONS WITHIN DETERMINED PERIOD OF TIME; (C) TO REINVEST SUBSTANTIAL PORTION OF PROFITS; AND (D) TO ACCEPT, WHEN ASKED, PARTICIPATION BY STATE OR "FOKONOLONA" OR CAPITAL INVESTMENTS BY MALAGASY CITIZENS.

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6 IN RETURN, GEN EXPLAINED STATE PREPARED TO OPEN UP POSSIBILITIES OFFERED BY INVESTMENT CODES(WHICH HE SAID WOULD BE PUBLISHED VERY SOON) TO FOREIGN FIRMS AND TO ALLOW THEM TO TRANSFER ABROAD NOT INCONSIDERABLE PART OF THEIR PROFITS. NO MENTION WAS MADE OF REPATRIATION OF CAPITAL, AND IT IS LIKELY GOMR HAS NOT YET DEFINED POLICY ON THIS DIFFICULT QUESTION NOW COMPLICATED BY DESIRE OF MANY FOREIGN BUSINESSES TO GET CAPITAL OUT OF COUNTRY.

7. GENERAL DID NOT PROVIDE DETAILS ON DEVELOPMENT PLAN (WHICH WILL COVER PERIOD THROUGH 1977) THOUGH HE DID NOTE PRIORITIES OF ECONOMIC DEVELOPMENT WOULD BE AGRICULTURE AND LIVESTOCK, CREATION OF INDUSTRIES USING LOCAL MATERIALS AND IMPROVEMENT OF ROAD NETWORK. IN OUR VIEW, GIVEN COUNTRY'S RESOURCES AND FEEDS, GOMR'S EMPHASIS IS IN RIGHT DIRECTION.

8. ANOTHER ENCOURAGING NOTE WAS GEN'S REMARK THAT MALAGASY SHOULD DEPEND ON THEIR OWN SAVINGS AND INVESTMENTS FOR DEVELOPMENT OF ECONOMY AND NOT RELY ON FOREIGN AID. HE INDICATED THERE WOULD BE REVISION OF TAX SYSTEM TO AUGMENT SAVINGS FOR INVESTMENTS IN ECONOMY AND TO DIVIDE TAX OBLIGATIONS MORE EQUITABLY. HE MADE NO REFERENCE TO INCREASE IN INTEREST RATES WHICH UNDOUBTEDLY NECESSARY BRING ABOUT SUBSTANTIAL INCREASE IN PRIVATE SAVINGS, BUT SUCH MEASURE PROBABLY NOT TIMELY UNTIL DEMAND FOR PRODUCTIVE CREDIT DEVELOPS.

9. IN WHAT WE BELIEVE TO BE PRESENT GOVT'S FIRST MENTION POSSIBLE LAND REFORM, GEN INDICATED STATE WOULD TAKE OVER AGRICULTURAL LAND NOT NOW BEING USED OR BEING USED POORLY FOR CULTIVATION BY STATE OR REDISTRIBUTION TO "FOKONOLONA". NOTING THIS WAS NOT INTENDED TO SUPPRESS PRIVATE PROPERTY, HE STATED REDISTRIBUTION WOULD BE AIMED AT INCREASED PRODUCTION AND MORE EQUITABLE OWNERSHIP OF LAND. HE WARNED ONLY STATE WOULD REDISTRIBUTE LAND AND ILLEGAL SEIZURES WOULD BE SEVERELY PUNISHED. MEASURE APPEARS AIMED PRIMARILY AT LARGE TRACTS OF LAND PREVIOUSLY PROVIDED TO FOREIGNERS AT LOW COST WHICH MAY NOT BE FULLY USED AT PRESENT.

10. IN CONTEXT RICE SUPPLY PROBLEM, GENERAL NOTED WITHOUT FURTHER COMMENT THAT COUNTRY'S DEMOGRAPHIC CURVE AND DEMAND ON LIMITED OFFICIAL USE

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RESOURCES ARE EXPERIENCING VERY SHARP SIMILTANEOUS RISE. WE WOULD LIKE TO THINK THIS REMARK IS INTENDED LAY BASIS FOR FUTURE INITIATION OF FAMILY PLANNING PROGRAM BUT THIS REMAINS TO BE SEEN.

MENDENHALL

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